FY 2013 BUDGET PROCESS

OVERVIEW:

The FY 2013 operating and capital budgets are based on council's continued vision of 'one community' and the supporting strategic goals that Council reaffirmed at a December 2009 retreat:

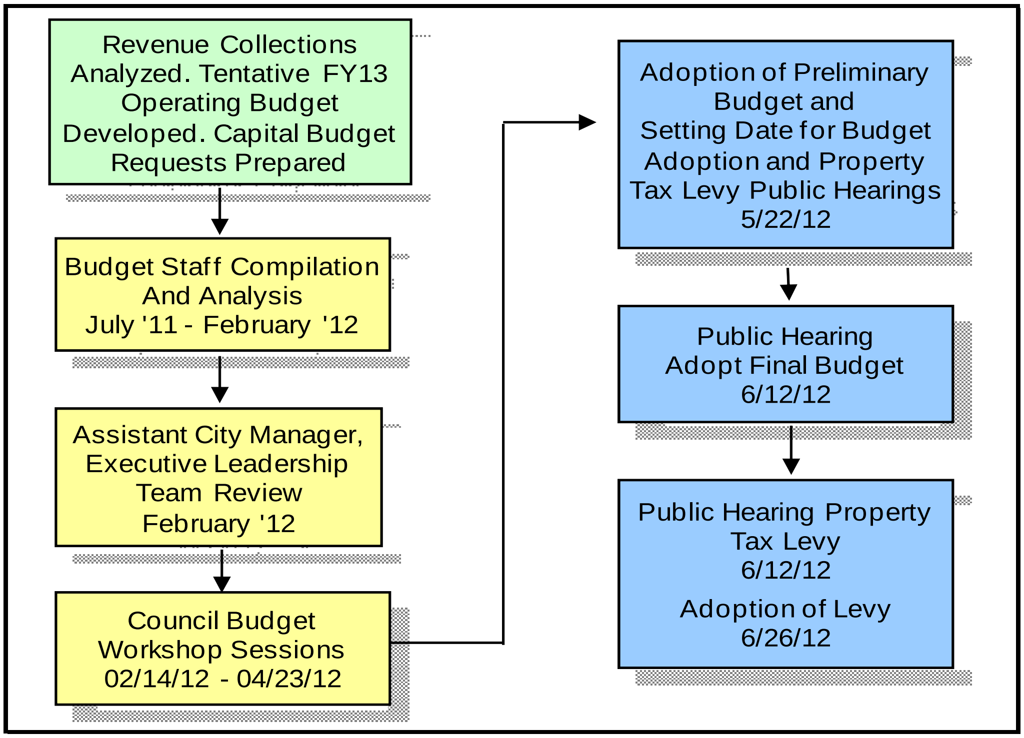
- One community that is fiscally sound,
- One community with strong neighborhoods,
- One community committed to public safety,
- One community with quality economic development,
- One community with a vibrant city center,
- One community with an active partnership with Luke Air Force Base, and
- One community with high quality services for citizens.

Two principal issues for the FY 2013 budget were the ongoing challenges of the economy and the Coyotes National Hockey League team as the main tenant of the city-owned Jobing.com Arena. Both are discussed in detail in the *City Manager's Message* in this document.

Over the course of several months various balancing options for both the FY 2013 operating budget and the FY 2013-2022 capital improvement plan were evaluated. A final balancing plan was established in February 2012 and resulted in the recommended budget presented to City Council at a series of budget workshops held from February to April 2012. For more information please see the *City Manager's Message* in this document

At the conclusion of these budget workshops, the proposed budget was presented to Council for tentative adoption and then, two weeks later, for final adoption. The budget was transmitted to the general public in the form of public hearing notices. These notices included summary budget information, including the date for the public hearing on the property tax levy, as required by Arizona state law. After completing the public hearing for the final FY 2013 budget, the Council adopted it and thereby set the expenditure limitation for FY 2013. A separate public hearing on the FY 2013 property tax levy was conducted at the same meeting as the final budget adoption. Adoption of the property tax levy occurred two weeks later.

The chart on the following page illustrates the broad outline of the FY 2013 budget development process.



VARIATIONS IN BUDGETING METHODS:

The budgets of general government type funds, such as the General Fund, Public Safety Special Revenue Fund, Streets Fund and Transportation Fund are prepared on a modified accrual basis. This means that unpaid financial obligations, such as outstanding purchase orders, are immediately reflected as encumbrances when the cost is estimated, although the items may not have been received yet. However, in most cases revenue is recognized only after it is measurable and actually available. Beginning with FY 1996, sales tax revenues were recorded in the period in which they were due to the city. This changed in FY 2008 and sales tax revenue is now recorded to the month it is collected.

Enterprise funds (Water/Sewer, Landfill, Sanitation and Community Housing Services) are prepared using the full accrual method. Enterprise funds also recognize expenditures as encumbered when a commitment is made (e.g., through a purchase order). Revenues, on the other hand, are recognized when they are obligated to the city (for example, water user fees are recognized as revenue when service is provided).

Purchase orders for goods and services received prior to the end of the current fiscal year will be eligible for payment for a period of days following the close of the fiscal year. However, encumbrances for all other purchase orders will automatically lapse.

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances on the basis of Generally Accepted Accounting Principles (GAAP). Since FY 2002, the CAFR has been prepared in compliance with Governmental Accounting Standards Board (GASB) Statement No. 34 requirements. The CAFR shows fund expenditures and revenues on both a GAAP basis and budget basis for comparison purposes. In most cases, this conforms to the way the city prepares its budget with the following exceptions:

a. Compensated absences liabilities that are expected to be liquidated with expendable available financial resources are accrued as earned by employees on a GAAP basis as opposed to being expended when paid on a budget basis.
b. Principal payments on long-term debt within the enterprise funds are applied to the outstanding liability on a GAAP basis as opposed to being expended when paid on a budget basis.
c. Capital outlays within the enterprise funds are recorded as assets on a GAAP basis and expended on a budget basis.
d. Inventory is expensed at the time it is used.
e. Depreciation expense is not budgeted as an expense.

ACCOUNTING CHANGES:

A new fund was budgeted in FY 2013 within the general fund group titled PFC Special Revenue (Fund 1782). This fund will be used to track revenues generated at the Camelback Ranch spring training baseball facility which is home to the Los Angeles Dodgers and Chicago White Sox. Revenues in FY 2013 include excess bond construction proceeds that will be used to pay debt service. A transfer out of this fund each year is made to cover the required debt service payment paid from the PFC debt service fund (Fund 1930). This fund will function in much the same way as the Zanjero Special Revenue (Fund 1770) and Arena Special Revenue (Fund 1780) that were established to track revenues within the Zanjero commercial properties (Cabella’s Sporting Goods, Cracker Barrel, etc.) and arena revenues generated within Westgate, respectively.

The P.F.C. Debt Service (Fund 1930) mentioned above was created in FY 2012 within the Debt Service Fund Group to track the principal and interest payments associated with the construction and equipment needed for Camelback Ranch. The Public Facilities Corporation (PFC) is a non-profit corporation organized under the laws of the State of Arizona. City Council retains oversight and must approve all debt upon recommendation from the PFC Board of Directors, which consists of four City employees and one private citizen. Although the PFC is a legally separate entity from the City, the PFC is reported as if it is part of the primary government because it sole purpose is to finance and construct public facilities for the City.

Debt service for Highway User Fee Revenue (HURF) bonds will continue to be addressed as it was for FY 2010 thru FY 2012. The City has outstanding HURF bonds for street projects that are backed by a pledge of the HURF monies the city receives from the state. The state reduced the amount of HURF revenue that is distributed to cities from FY 2010 thru FY 2012. Therefore, a portion of HURF debt service will continue to be paid by secondary property tax revenue ($1,354,435), roadway development impact fees ($1 million) and transportation sales tax revenues ($1 million). The remaining $1,354,435 needed for the $4,708,869 debt service payment will be paid for using HURF revenues.